

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

ROYAL OAK TWP HOUSING COMMISSION

Financial Statements

March 31, 2006

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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***John C. DiPiero, P.C.***

Certified Public Accountant

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Board of Commissioners  
Royal Oak Twp. Housing Commission  
8900 Cloverdale Avenue  
Ferndale, Michigan 48220

### **Independent Auditor's Report**

I have audited the Business Type Activities of the Royal Oak Twp Housing Commission as of and for the year ended March 31, 2006. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sample Housing Commission as of March 31, 2006, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Required Supplemental Information**

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

**Combining Financial Statements**

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

December 1, 2006

As management of the Royal Oak Township Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Royal Oak Township Housing Commission's financial activities for the FYE 3/31/06. This discussion and analysis letter of the Royal Oak Township Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

### **Overview of the Financial Statements**

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund financial statements because the Commission only has proprietary funds.

### **Required Financial Statements**

The Statement of Net Assets includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

#### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

#### Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

#### Royal Oak Township Housing Commission Programs:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

### Entity-Wide Financial Highlights:

The following Federal Assistance was received during FYE 3/31/06:

	<u>FYE</u> <u>3/31/06</u>	<u>FYE</u> <u>3/31/05</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Public Housing Operating Subsidy	411,835	416,163	(4,328)	-1.04%
Capital Fund Program Grants	<u>474,207</u>	<u>264,100</u>	<u>210,107</u>	<u>79.56%</u>
Total	886,042	680,263	205,779	30.25%

The subsidy for both Public Housing remained relatively stable. The substantial increase in the Capital Fund Program was due to the fact that work projects during FYE 3/31/06 progressed along at a much more rapid pace than the prior year, thus utilizing more of our Capital Fund Program funding in FYE 3/31/06 than in FYE 3/31/05.

The following represents changes in the Balance Sheet:

	<u>FYE</u> <u>3/31/06</u>	<u>FYE</u> <u>3/31/05</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Cash & Investments	353,505	579,264	(225,759)	-38.97%
Total Current Assets, net of inter-program (due from)	656,796	625,700	31,096	4.97%
Fixed Assets, Net of Depreciation	3,504,691	3,359,506	145,185	4.32%
Total Liabilities, net of inter-program (due to)	251,080	93,112	157,968	169.65%
Total Equity/Net Assets	3,910,407	3,892,094	18,313	0.47%

Cash and Investments decreased in proportion to the loss



sustained by the Public Housing Program. (The Public Housing program, in its day-to-day operations sustained an operating loss of over \$126,000). The decrease was also attributable to a corresponding increase in HUD Accounts Receivable on the Capital Fund Programs - we spent a substantial amount of operating cash on Capital Fund Program projects for which we had not yet received reimbursement from HUD as of 3/31/06.

The increase in total Current Assets was primarily a result of the increase in prepaid insurance at 3/31/06. At 3/31/05 we had not yet paid for our comprehensive property and liability policy for the following year; the subsequent policy was paid for, in full, before 3/31/06.

Fixed Assets increased by \$457,832; this increase represents several capital projects funded through the Capital Fund Programs (see details below). Although Fixed Assets increased by \$457,832, this was somewhat offset by depreciation charges of \$312,647, resulting in the net increase stated in the above table.

Total Liabilities increased due to the substantial bank overdraft of over \$132,000 as of 3/31/06. The prior Executive Director issued checks at the end of March for Capital Fund projects without yet receiving HUD reimbursement through the LOCCS system. Total Liabilities also increased since we had contract retentions as of 3/31/06 (relating again to the Capital Projects) compared to none as of 3/31/05.

Total Net Assets is comprised of two components: Invested in Capital Assets, which mirrors the increase in Fixed Assets, Net of Depreciation as explained above. The other component is Unrestricted Net Assets, or what used to be called Operating Reserves. This figure decreased due to the Operating Income generated by the Public Housing Program for FYE 3/31/06.

The following schedule compares the Revenues and Expenses for

the current and prior fiscal years:

*Statement of Revenues, Expenses, and Changes in Net Assets*

	<u>FYE</u> <u>3/31/06</u>	<u>FYE</u> <u>3/31/05</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
<b>Revenues:</b>				
Tenant Revenue	174,998	165,399	9,599	5.8%
Other Revenue	<u>13,333</u>	<u>14,155</u>	<u>(822)</u>	-5.8%
Total PHA generated Revenue	188,331	179,554	8,777	4.9%
Operating/Soft Cost Subsidies	437,460	416,163	21,297	5.1%
Capital Grants (Hard costs)	<u>448,582</u>	<u>264,100</u>	<u>184,482</u>	69.9%
<b>Total Revenue</b>	<b>1,074,373</b>	<b>859,817</b>	<b>214,556</b>	<b>25.0%</b>
<b>Expenses:</b>				
Administrative	182,771	174,430	8,341	4.8%
Tenant Services	49,747	48,074	1,673	3.5%
Utilities	101,158	86,339	14,819	17.2%
Maintenance	360,932	275,079	85,853	31.2%
General	48,070	49,619	(1,549)	-3.1%
Casualty Losses	735	0	735	
Depreciation	<u>312,647</u>	<u>323,138</u>	<u>(10,491)</u>	-3.2%
Total Expenses	1,056,060	956,679	99,381	10.4%
<b>Net Increase (Decrease)</b>	<b>18,313</b>	<b>(96,862)</b>		

*Revenues:*

Royal Oak Township Housing Commission's primary revenue sources are subsidies and grants received by HUD. For FYE 3/31/06, revenue generated by the Commission accounted for \$188,331 (or 17.5% of total revenue), while HUD contributions accounted for \$886,042 (or 82.5% of total revenue).

*Expenses:*

Total Expenses for FYE 3/31/05 were \$956,679 while for FYE 3/31/06 the total was \$1,056,060. This represents a 10.4% increase in our Operating Costs. Most of the increase was attributable to increases in Utilities - Water; Maintenance Labor Wages; Employee Benefits; and Collection Losses. The following chart illustrates these increases.

	<u>FYE</u> <u>3/31/06</u>	<u>FYE</u> <u>3/31/05</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Water	79,826	65,925	13,901	21.1%
Maintenance Labor Wages	140,444	73,657	66,787	90.7%
Employee Benefits	95,503	58,972	36,531	61.9%
Collection Losses	5,532	3,481	2,051	58.9%

- Water: Both an increase in Water consumption and rate increases caused the increase.
- Maintenance Labor Wages: The increase in Maintenance Labor is due to the hiring of an additional full-time employee. This decision was made by the prior Executive Director. He also hired an additional part-time maintenance employee, increasing the maintenance staff by more than 50% compared with overall staffing levels during FYE 3/31/05. Along with wage rate increases and overtime costs, the increase in staffing accounts for the considerable increase in this expense category. It is believed that the former E.D. increased the staff to address the many maintenance issues cited in the I.G. report. However, by hiring staff instead of contracting out for these services, this decision cost the Housing Commission more than just wages; it also accounts for the substantial increase in Employee Benefits.  
Even though maintenance materials and contract costs decreased from FYE 3/31/05 to FYE 3/31/06 (by \$33,791), this was more than offset by the increases in labor and benefits (\$103,318). The current Executive Director has reduced the maintenance staff and has just replaced the very costly health insurance plan in effect during FYE 3/31/06 with a far more cost-effective plan. Since these changes have just recently been made, we will see some minimal impact in these expenses for the FYE 3/31/07, but we won't really see the total effect of these cost-savings measures until FYE 3/31/08.
- Employee Benefits: see above discussion.
- Collection Losses: The increase in this category reflects the increase in Tenants Accounts Receivable. Tenants Accounts Receivable has been steadily increasing over the last few years. This is most likely attributable to the many office staff changes, including long periods of staff position vacancies, over that time. We now have a stable office staff and are working to improve tenant collections.

*Budget Analysis:*

A Low Rent Public Housing Operating Budget (prepared by the former Executive director and the consultant provided by HUD) for calendar year 2006 was presented to and approved by the Board of Commissioners (see Finding 6-2 for a detailed discussion of this event). It is unknown as to why they prepared a budget for a period other than for our fiscal year in direct contradiction with HUD rules and regulations. For almost the entire fiscal year, the Board was under the impression that they had approved an Operating Budget. It wasn't until very late in the fiscal year (March 2006) - when the Detroit HUD office requested a copy of the Operating Budget for FYE 3/31/06 - that the Board of Commissioners were alerted to the fact that they did not have one. At that time, the Commission requested that the Fee Accountant assist them in the preparation of a budget for FYE 3/31/06 (albeit a retroactive budget, since the fiscal year was almost over). This was prepared and presented to the Board for their approval. However, the Board elected to table that item on the agenda in the March 2006 meeting and, therefore, failed to approve an Operating Budget for FYE 3/31/06.

#### **Entity-Wide Operational Highlights:**

The Royal Oak Township Housing Commission provided the following housing for low- income elderly and low-income families:

	<u>FYE</u> <u>3/31/06</u>	<u>FYE</u> <u>3/31/05</u>
Low Rent Public Housing	128	128

During FYE 3/31/06, Royal Oak Township Housing Commission maintained a lease-up rate of 94.7% in its Public Housing. This lease-up rate is under the HUD-prescribed target of 97%. We are working to increase our lease-up rates.

During FYE 3/31/06, our Capital Fund Program work projects

included:

- Comprehensive upgrades of dwelling unit kitchens & bathrooms
- Installation of wash tub drains in 80 units
- Installation of dryer vents in 80 units
- Software & Hardware Computer upgrades for the office
- Landscaping upgrades throughout the project

### **Economic Factors and Next Year's Budget and Rates**

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents.

### **Request for Information**

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Mary E. Herndon, Executive Director  
Royal Oak Township Housing Commission  
8900 Cloverdale  
Ferndale, MI 48220

ROYAL OAK TWP HOUSING COMMISSION  
Statement of Net Assets  
March 31, 2006

ASSETS

C-3166

CURRENT ASSETS

Cash	\$	52,300
Accounts Receivable (Net)		274,200
Investments		301,205
Prepaid Expenses		<u>29,091</u>

Total Current Assets \$ 656,796

NON CURRENT ASSETS

Land	\$	126,725
Buildings & Improvements		2,840,682
Furniture, Equipment- Administrative		110,040
Leasehold Improvements		4,384,836
Construction in Progress		228,397
Accumulated Depreciation		<u>(4,185,989)</u>

Total Non Current Assets 3,504,691

TOTAL ASSETS \$ 4,161,487

ROYAL OAK TWP HOUSING COMMISSION  
Statement of Revenues, Expenses, and Changes in Net Assets  
March 31, 2006

LIABILITIES

C-3166

LIABILITIES:

CURRENT LIABILITIES

Bank Overdraft	\$ 132,880
Accounts Payable	11,619
Accrued Wages & Payroll Taxes	16,478
Accrued Compensated Absences	295
Tenants Security Deposit	13,829
Account Payable- Other Government	25,831
Deferred Revenues	3,983
Accrued Liabilities- Other	<u>43,507</u>

<u>Total Current Liabilities</u>	\$ 248,422
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NON CURRENT LIABILITIES

Accrued Compensated Absences-non current	<u>2,658</u>
<u>Total Liabilities</u>	\$ <u>251,080</u>

NET ASSETS:

Invested in Capital Assets, net of Related Debt	\$ 3,504,691
Unrestricted Net Assets	<u>405,716</u>

<u>Total Net Assets</u>	<u>3,910,407</u>
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<u>TOTAL LIABILITIES &amp; NET ASSETS</u>	\$ <u>4,161,487</u>
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The Accompanying Footnotes are an Integral Part of the Financial Statements

ROYAL OAK TWP HOUSING COMMISSION  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the year ended March 31, 2006

OPERATING REVENUE

Tenant Rental Revenue	\$ 170,497	
Tenant Revenue-Other	4,501	
HUD Grants	437,460	
Interest Income	10,297	
Other Income	<u>3,036</u>	
<u>Total Operating Revenue</u>		\$ 625,791

OPERATING EXPENSES

Administrative	\$ 182,771	
Tenant Services	49,747	
Utility Expenses	101,158	
Ordinary Maintenance	360,932	
General Expenses	<u>48,070</u>	
<u>Total Operating Expenses</u>		<u>742,678</u>
<u>Operating Income (Loss)</u>		\$ (116,887)

NONOPERATING REVENUE (EXPENSES)

Casualty Losses	\$ (735)	
Depreciation Expenses	<u>(312,647)</u>	
<u>Total NonOperating Revenue (Expenses)</u>		<u>(313,382)</u>
<u>Income (Loss) before Contributions</u>		\$ (430,269)

CAPITAL CONTRIBUTIONS

		<u>448,582</u>
<u>Changes in Net Assets</u>		\$ 18,313
Total Net Assets- Beginning		<u>3,892,094</u>
Total Net Assets- Ending		\$ <u>3,910,407</u>

The Accompanying Notes are an Integral part of the Financial Statements



ROYAL OAK TWP HOUSING COMMISSION  
Combined Statement of Cash Flows  
For the Year Ended March 31, 2006

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 172,173
Payments to Suppliers	(342,054)
Payments to Employees	(255,879)
HUD Grants	886,042
Other Receipts (Payments)	<u>13,333</u>
Net Cash Provided (Used) by Operating Activities	\$ 473,615

CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(457,832)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 15,783
Balance- Beginning of Year	<u>36,517</u>
Balance- End of Year	\$ <u>52,300</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ 18,313
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	312,647
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(229,538)
Investments	241,542
Prepaid Expenses	(27,317)
Changes in Liabilities Increase (Decrease):	
Bank Overdraft	132,880
Accounts Payable	(30,364)
Accrued Liabilities	42,773
Accrued Compensated Absences	(2,801)
Security Deposits	(1,695)
Accounts Payable- Other Governments	13,073
Deferred Revenue	<u>(712)</u>
Net Cash Provided by Operating Activities	\$ <u>473,615</u>

The Accompanying Notes are an Integral part of the Financial Statements

ROYAL OAK TWP HOUSING COMMISSION  
Notes to Financial Statements  
March 31, 2006

NOTE 1: Summary of Significant Accounting Policies

**Reporting Entity-**

Royal Oak Twp Housing Commission, Ferndale, Michigan, (Commission) was created by ordinance of the Township of Royal Oak. The Commission signed an Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 33-1, 2	Low rent program	128 units
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In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

**Basis of Presentation-**

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

## Notes to Financial Statements- continued

### Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

### Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1999, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 31, 1989, unless they conflict with Governmental Accounting Standards Board (GASB) pronouncements.

### Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

### Assets, Liabilities, and Net Assets-

#### Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Due to/From Other Funds

During the course of operations, numerous transactions occur between individual funds for goods or services; these receivables and payables are classified as "due from" or "due to" other funds on the Balance Sheet.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	27.5 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

Checking Accounts	\$ 31,329
Petty Cash	200
Money Market	<u>20,771</u>
Financial Statement Total	\$ <u>52,300</u>

Notes to Financial Statements- continued

Investments:

Governmental Bonds & Notes \$ 301,205

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Cash:					
Checking A/C's	\$ 31,329	\$	\$	\$ 31,329	\$ 31,329
Petty Cash	200			200	200
Treasury Bill's	<u>20,771</u>			<u>20,771</u>	<u>20,771</u>
Total Cash	\$ <u>52,300</u>	\$	\$	\$ <u>52,300</u>	\$ <u>52,300</u>

Investments:

Bonds & Notes \$ 301,205 \$ \$ \$ 301,205 \$ 301,205

Note 3: Accounts Receivable

Accounts Receivable consist of the following:

Accounts Receivable- Tenants	\$ 18,871	
Allowance for Doubtful Accounts	<u>(14,084)</u>	\$ 4,787
Accounts Receivable- Fraud Recovery	\$ 3,224	
Allowance for Doubtful Accounts	<u>(3,224)</u>	0
Accrued Interest Receivable		1,031
Accounts Receivable-other		1,560
Accounts Receivable HUD		<u>266,822</u>
		\$ <u>274,200</u>

Note 4: Prepaid Expenses

Prepaid expenses consist of unused insurance premiums covering future periods. The benefits of the insurance will be written off systematically over the remaining periods until fully expired.

Notes to Financial Statements- continued

Note 5: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 126,725	\$	\$	\$ 126,725
Buildings	2,840,682			2,840,682
Furniture & Equipment-Admin	94,494	15,546		110,040
Leasehold Improvements	<u>4,170,947</u>	<u>442,286</u>		<u>4,613,233</u>
	\$ 7,232,848	\$ 457,832	\$	\$ 7,690,680
Less Accumulated Depreciation	<u>3,873,342</u>	<u>312,647</u>		<u>4,185,989</u>
	<u>\$ 3,359,506</u>	<u>\$ 145,185</u>	<u>\$</u>	<u>\$ 3,504,691</u>

Note 6: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 7: Combining Financial Data Schedules.

The totals in the Combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Note 8: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 12,942,432
General Liability	1,000,000
Errors & Omissions	1,000,000
Automobile	1,000,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

## Royal Oak Twp Housing Commission

31-Mar-06

MI033

## Combining Balance Sheet

Low Rent 14.850

Capital Projects  
Funds 14.872

TOTAL

Line Item #				
	<b>ASSETS:</b>			
	CURRENT ASSETS:			
	Cash:			
111	Cash - unrestricted	52,300	-	52,300
112	Cash - restricted - modernization and developmer		-	-
113	Cash - other restrictec			-
114	Cash - tenant security deposit			-
100	Total cash	52,300	-	52,300
	Accounts and notes receivables			
121	Accounts receivable - PHA project			-
122	Accounts receivable - HUD other project	35,919	230,903	266,822
124	Accounts receivable - other governmer			-
125	Accounts receivable - miscellaneou	1,560	-	1,560
126	Accounts receivable- tenants - dwelling rent	18,871		18,871
126.1	Allowance for doubtful accounts - dwelling rent	(14,084)		(14,084)
126.2	Allowance for doubtful accounts - othe	-		-
127	Notes and mortgages receivable- curren			-
128	Fraud recovery	3,224		3,224
128.1	Allowance for doubtful accounts - fraud	(3,224)		(3,224)
129	Accrued interest receivabl	1,031		1,031
120	Total receivables, net of allowances for doubtful account	43,297	230,903	274,200
	Current investments			-
131	Investments - unrestricted	301,205		301,205
132	Investments - restrictec			-
142	Prepaid expenses and other asset	29,091		29,091
143	Inventories			-
143.1	Allowance for obsolete inventorie			-
144	Interprogram - due from	202,771	-	202,771
146	Amounts to be providec			-
150	TOTAL CURRENT ASSETS	628,664	230,903	859,567
	NONCURRENT ASSETS:			
	Fixed assets:			
161	Land	126,725		126,725
162	Buildings	2,840,682		2,840,682
163	Furniture, equipment & machinery - dwelling	-		-
164	Furniture, equipment & macinery - admininstratio	95,745	14,295	110,040
165	Leasehold improvement	4,149,746	235,090	4,384,836
166	Accumulated depreciator	(4,180,676)	(5,313)	(4,185,989)
167	Construction in Progress		228,397	228,397
160	Total fixed assets, net of accumulated depreciatio	3,032,222	472,469	3,504,691
171	Notes and mortgages receivable - non-curren			-
172	Notes and mortgages receivable-non-current-past du			-
174	Other assets			-
175	Undistributed debits			-
176	Investment in joint venture:			-
180	TOTAL NONCURRENT ASSETS	3,032,222	472,469	3,504,691
190	TOTAL ASSETS	3,660,886	703,372	4,364,258

	<b>LIABILITIES AND EQUITY:</b>			
	<b>LIABILITIES:</b>			
	<b>CURRENT LIABILITIES</b>			
311	Bank overdraft	132,880		132,880
312	Accounts payable ≤ 90 days	11,619		11,619
313	Accounts payable > 90 days past due			-
321	Accrued wage/payroll taxes payable	16,478		16,478
322	Accrued compensated absence	295		295
324	Accrued contingency liability			-
325	Accrued interest payable			-
331	Accounts payable - HUD PHA program		-	-
332	Accounts Payable - PHA Project			
333	Accounts payable - other government	25,831		25,831
341	Tenant security deposits	13,829		13,829
342	Deferred revenues	3,983	-	3,983
343	Current portion of Long-Term debt - capital project			-
344	Current portion of Long-Term debt - operating borrowing			-
345	Other current liabilities	15,375	28,132	43,507
346	Accrued liabilities - other	-	-	-
347	Inter-program - due to	-	202,771	202,771
310	<b>TOTAL CURRENT LIABILITIES</b>	<b>220,290</b>	<b>230,903</b>	<b>451,193</b>
	<b>NONCURRENT LIABILITIES:</b>			
351	Long-term debt, net of current- capital project			-
352	Long-term debt, net of current- operating borrowing			-
353	Noncurrent liabilities- other	2,658		2,658
350	<b>TOTAL NONCURRENT LIABILITIES</b>	<b>2,658</b>	<b>-</b>	<b>2,658</b>
300	<b>TOTAL LIABILITIES</b>	<b>222,948</b>	<b>230,903</b>	<b>453,851</b>
	<b>EQUITY:</b>			
501	Investment in general fixed asset			-
	<b>Contributed Capital:</b>			
502	Project notes (HUD)	-		-
503	Long-term debt - HUD guarantee	-		-
504	Net HUD PHA contributions	-	-	-
505	Other HUD contributions	-		-
507	Other contributions			-
508	Total contributed capital	-	-	-
508.1	Invested in Capital Assets Net of Related Debt	3,032,222	472,469	3,504,691
	Reserved fund balance			-
509	Reserved for operating activities			-
510	Reserved for capital activities	-		-
511	Total reserved fund balance	-	-	-
511.1	Restricted Net Asset	-	-	-
512.1	Unrestricted Net Asset	405,716		405,716
513	<b>TOTAL EQUITY</b>	<b>3,437,938</b>	<b>472,469</b>	<b>3,910,407</b>
600	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,660,886</b>	<b>703,372</b>	<b>4,364,258</b>

- - -



Royal Oak Twp. Housing Commission

31-Mar-06

MI033

Combining Income Statement

		Low Rent 14.850	Capital Projects Fund 14.872	TOTAL
Line Item #				
	<b>REVENUE:</b>			
703	Net tenant rental revenue	170,497	-	170,497
704	Tenant revenue - other	4,501		4,501
705	Total tenant revenue	174,998	-	174,998
706	HUD PHA Operating grants	411,835	25,625	437,460
706.1	HUD PHA Capital grants		448,582	448,582
708	Other government grants	-		-
711	Investment income - unrestricted	10,297	-	10,297
712	Mortgage interest income	-		-
714	Fraud recovery			-
715	Other revenue	3,036		3,036
716	Gain or loss on the sale of fixed asset			-
720	Investment income - restricted		-	-
700	<b>TOTAL REVENUE</b>	<b>600,166</b>	<b>474,207</b>	<b>1,074,373</b>
	<b>EXPENSES:</b>			
	Administrative			
911	Administrative salaries	79,428	-	79,428
912	Auditing fees	5,750	-	5,750
913	Outside management fees		-	-
914	Compensated absence	(487)		(487)
915	Employee benefit contributions- administrative	29,606	-	29,606
916	Other operating- administrative	67,947	527	68,474
	Tenant services			
921	Tenant services - salaries	36,007		36,007
922	Relocation costs	-		-
923	Employee benefit contributions- tenant services	13,370		13,370
924	Tenant services - other	370		370
	Utilities			
931	Water	79,826		79,826
932	Electricity	10,878		10,878
933	Gas	10,454		10,454
934	Fuel			-
935	Labor			-
937	Employee benefit contributions- utilities			-
938	Other utilities expenses	-		-
	Ordinary maintenance & operation			
941	Ordinary maintenance and operations - labor	140,444		140,444
942	Ordinary maintenance and operations - materials & other	60,613	-	60,613
943	Ordinary maintenance and operations - contract cost	82,250	25,098	107,348
945	Employee benefit contributions- ordinary maintenance	52,527		52,527
	Protective services			
951	Protective services - labor			-

[illegible]

ROYAL OAK TWP HOUSING COMMISSION  
Schedule of Annual Federal Awards  
For the Year Ended March 31, 2006

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3166 Operating Subsidies	\$ <u>411,835</u>
* <u>CFDA 14.872 Capital Fund Program</u>	
C-3166 Capital Fund Program	\$ <u>474,207</u>
	\$ <u>886,042</u>

\*Connotes Major Program Category

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 12,942,432
General Liability	1,000,000
Errors & Omissions	1,000,000
Automobile	1,000,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

ROYAL OAK TWP HOUSING COMMISSION  
Status of Prior Audit Findings  
March 31, 2006

The prior audit of the Royal Oak Twp Housing Commission for the period ended March 31, 2003, contained four audit findings; the corrective action taken by the Commission is as follows:

- 1) Credit Card Policy- policy adopted which appears to be in compliance with State Law.
- 2) Excessive Accounts Receivable- the level of Accounts Receivable has increased and is still above acceptable levels; see finding.
- 3) Davis Bacon Act Discrepancies- same situation exists in the current year; see finding.
- 4) Policies not up to date- the Board adopted a number of policies which appear to be acceptable.
- 5) 1099's not prepared- evidence that the 1099's were prepared and submitted; some errors were detected by the Internal Revenue Service and additional information is needed, however, they were prepared.
- 6) Inspector General Audit Report- issues still not resolved; see finding.
- 7) Travel Policy Violations- new policy addresses the issues that arose in this finding; new policy not violated.

ROYAL OAK TWP HOUSING COMMISSION  
Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of Financial  
Statements Performed in Accordance with  
*Government Auditing Standards*  
March 31, 2006

Compliance

I have audited the compliance of Royal Oak Twp Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended March 31, 2006. Royal Oak Twp Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Royal Oak Twp Housing Commission's management. My responsibility is to express an opinion on Royal Oak Twp Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Royal Oak Twp Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Royal Oak Twp Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

Low Rent Public Housing:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Excessive Accounts Receivable	03-1	Program Income
Inspector General Audit	04-3	Equipment and Real Property Management; Other Requirement
Tenant Accounting Discrepancies	06-1	Eligibility
No Approved Operating Budget	06-2	Other
Procurement Policy Violations	06-3	Procurement

Capital Funds Project:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Davis Bacon Act Discrepancies	03-4	Davis-Bacon Act

In my opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2006.

#### Internal Control over Compliance

The management of Royal Oak Twp Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Royal Oak Twp Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgement, could adversely affect the Commissions ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

November 5, 2006

ROYAL OAK TWP HOUSING COMMISSION  
Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of Financial  
Statements Performed in Accordance with  
*Government Auditing Standards*  
March 31, 2006

I have audited the financial statements of Royal Oak Twp Housing Commission, Royal Oak Twp, Michigan, as of and for the year ended March 31, 2006, and have issued my report thereon dated November 5, 2006. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Royal Oak Twp Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Royal Oak Twp Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note instances which may be considered weaknesses that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

November 5, 2006

ROYAL OAK TWP HOUSING COMMISSION  
Schedule of Findings and Questioned Cost  
March 31, 2006

**Summary of Auditor's Results:**

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Capital Projects Fund	X	

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ <u>X</u> No
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Reportable condition(s) noted	_____ Yes	_____ <u>X</u> No
-------------------------------	-----------	-------------------

Non Compliance material to financial statements noted	_____ Yes	_____ <u>X</u> No
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Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	_____ Yes	_____ <u>X</u> No
-----------------------------	-----------	-------------------

Reportable condition(s) noted	_____ <u>X</u> Yes	_____ No
-------------------------------	--------------------	----------

Non Compliance material to financial statements noted	_____ Yes	_____ <u>X</u> No
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Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did not qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	Yes	None	03-1; 04-4; 06-1; 06-2; 06-3
Capital Projects Fund	Yes	None	03-4



ROYAL OAK TWP HOUSING COMMISSION  
Schedule of Findings, Recommendations and Replies  
March 31, 2006

The following findings of the Royal Oak Twp Housing Commission, for the year ended March 31, 2006, was discussed with the Executive Director, Ms. Mary Herndon, in an exit interview conducted December 1, 2006:

Finding 03-01:

Excessive Accounts Receivable.

Average tenant accounts receivable based on units in possession at March 31, 2006, were \$ 147., HUD prescribes \$ 15 per unit average as acceptable. This is a repeat finding.

Recommendation

The average out-standing balance in the past couple of years has been rising; for the year ended March 31, 2004 the average was \$ 90, in 2005 \$ 125, and in 2006 \$ 147. The average is headed in the wrong direction.

The Commission has undergone several administrative changes both in the executive and staff levels. Key staff positions have not been filled consistently over the past two years; as a result, monitoring and collecting accounts receivable have not been at acceptable levels.

I recommend the Commission keep key staff personnel in place; insure proper training, and develop a system to monitor the process; the Commission needs to continue in it's efforts to get the accounts receivable level below the minimum threshold as required by HUD.

Reply

The Housing Commission has hired a new director. One which we believe will move us forward and in the right direction. Currently we have a consulting firm, hired by HUD working toward assisting with training our support staff. In house training is believed to be more valuable. Our accounts receivable now going in the right direction. The average is currently \$ 75.; down in the last five months from \$ 170.

Finding 03-04:

Davis Bacon Act Discrepancies

The Commission obtained copies of certified payrolls from the contractors and did receive a wage determination from the Department of Labor; however, failed to conduct employee interviews. This is a repeat finding.

**Recommendation**

The Commission collected the required documents and reviewed them for compliance, however, without third party verification, the Commission can only accept the contractor's statements as accurate. The purpose of the interviews are to obtain first hand information from the employees what they are doing, being paid, and job classification; without that data, the contractor can represent hours, jobs, rates without question.

I recommend the Commission conduct the periodic interviews and compare them to the certified payrolls as required by HUD.

**Reply**

The Housing Commission will, in the future conduct periodic interviews and compare them to the certified payrolls as required by HUD. We will note any discrepancies and follow through as required.

Finding 04-4: Inspector General Audit Report 2004.

The Office of Inspector General (IG) for HUD conducted an audit of the Royal Oak Twp. Housing Commission and issued their report on November 29, 2004. The report cited the following findings:

- Public Housing Units did not meet Federal Requirements for Physical Condition and Handicap Accessibility
- Board Commissioners Interfered with the Day-to-Day Operations of the Housing Commission

This is a repeat finding.

**Recommendation**

The audit report goes into great detail outlining the unit deficiencies and suggests it may cost as much as \$ 5 million to repair. The report cites over 1100 deficiencies; it also examines the funding the Commission has received in the past several years. The report suggests that if all the funds had been properly applied, these deficiencies may not have occurred, and concludes that to punish the Commission for these failures, last years subsidy (2004) should be returned to HUD. I cited this as a finding in the March 31, 2004 audit and it was repeated in the March 31, 2005 audit. In 2004, I disagreed with the IG's position concerning retribution in the amount of \$ 367,516. Apparently, HUD disagreed with that position as well; in a letter dated March 23, 2005, from the Director of Public Housing, Detroit Field Office to the Regional Inspector General for Audit, it was suggested that the calculation was in error and that a more appropriate amount would be \$ 91,879. In that letter, under Corrective Action 1A, it is recommended that the \$ 91,879 be further reduced to \$ 43,768 due to some maintenance charges which, after documentation, should be allowed as an offset. In the same response, the Director of Public Housing suggested that other procedural findings be corrected, and in addition, under Corrective Action 2A \$ 45,220 be repaid to the Public Housing Program from non-Federal funds for the operating subsidy that was not used in accordance with HUD's One Strike Policy. Under Corrective Action 2D, the Director of Public Housing agreed with the IG's recommendation to repay the cost of a sign in the amount of \$ 7,999., if paid with Federal funds.

The recommendations from the Director of Public Housing were subject to approval by the Office of Inspector General for HUD; and finally, the March 31, 2005 audit, conducted by another auditing firm, suggested the entire matter had been cleared December 2005.

A question was raised by the Hackley Bank & Trust concerning local vs federal funds; the question raised concerned collateral requirements if federal funds (subsidies) are deposited in an account with other non federal or local funds (rents). Under those circumstances, was the bank obligated to pledge securities to cover local funds? The Department of the Treasury, Bureau of Government Financial Operations responded in a letter dated January 25, 1980 in this manner: "this is to advise that the Department of Housing and Urban Development has informed this office that in their opinion the funds in question are not public moneys and therefore should not be secured by a pledge of collateral under the terms of Department Circular 176."

The Commission received a letter from the Director of Public Housing February 26, 2006 stating the following: "Be advised, the closure dates of the open findings has been extended to October 31, 2006. In addition to the deadline extension, the monetary amount for recommendation 1A has been reduced from \$ 367,516 to \$ 91,879., however all other findings remain unchanged." Does this imply that the IG agreed to the Director of Public Housing's recommendations, except for the additional reduction of \$ 48,111 for maintenance cost as stated under Corrective Action 1A? Does the letter further imply that the other monetary amounts agreed to by the Director of Public Housing must be repaid? The correspondence provided to me by the Housing Commission Director during the course of the audit was unclear concerning the above audit issues; unless other correspondence exists, it is uncertain what the IG or HUD has agreed to or expects. The Office of Inspector General for HUD is a completely separate branch of government with regulatory authority; since the IG conducted the audit and proposed its own corrective actions, I believe they need to notify the Commission, in writing, their expectations.

Therefore, I recommend the following:

- 1) HUD and the IG agree to the findings and monetary repayment necessary, and put their decisions in writing to the board; until all parties have agreed to what the findings are, corrective action may not satisfy both the IG and HUD.
- 2) HUD needs to issue a written definition of what constitutes non-Federal funds consistent with the position taken on depository requirements as discussed above so that the Commission can respond accordingly.
- 3) A reasonable amount of time is afforded the Commission to resolve these matters once 1 & 2 have been clearly delineated.

### **Reply**

The Housing Commission is not aware of any non federal funds available. Therefore, there is no way we will ever be able to close the OIG findings as they relate to monetary repayments.

Finding 06-01:

Tenant Accounting Discrepancies.

The following discrepancies were noted in a recent review of tenant files: 5 of 7 files tested either used the incorrect income amounts to calculate rents, or failed to verify income; inspection forms were unsigned and undated; no indication that work orders were completed; utility allowances have not been reviewed in the past three years; 6 out of 7 files lacked community service determination letters

**Recommendation**

Even though the sample size was small (5%), it demonstrated several problems which may be applicable to the entire population. HUD requires certain third party documentation and forms be included within the files.

I recommend the Commission train and monitor the individuals responsible for tenant leasing and continued occupancy. In addition, I recommend the Commission institute a plan to review all tenant files to insure compliance.

**Reply**

Nelrod Consulting Inc. along with the Executive Director is currently reviewing files and leasing and continued occupancy procedures with the individuals responsible.

All files will be reviewed for compliance and corrected in as much as possible. The Executive Director will, as much as feasible, review all new lease files for compliance and proper documentation.

Finding 6-2:

No Approved Operating Budget.

The Commission did not have an operating budget for the period April 1, 2005 to December 31, 2005; a budget for the calendar year January 1, 2006 to December 31, 2006 was approved.

**Recommendation**

The prior director and a HUD consultant elected to prepare a budget consistent with the changed funding period of January 1, to December 31, even though instructions from HUD indicated that fiscal year Commissions must create budgets consistent with their year ends using funding from the original fiscal year and a portion from the new funding year. In addition to the aforementioned instructions, the Annual Contributions Contract, part A, section 11, requires Commissions to prepare and approve an annual budget consistent with the fiscal year.

I recommend the Commission prepare and approve an annual budget and monitor operations using the budget during the year.

**Reply**

For FYE 3/31/07, a budget has been prepared and submitted to HUD for approval. Our fee accountant will be charged with providing the Housing Commission with a monitoring chart and or figures for our review, not less than quarterly.

Finding 6-3:

Procurement Policy Violations.

The Commission entered into several maintenance and landscaping contracts during the year, however, there was no evidence that the contracts had gone to bids as required by the procurement policy.

**Recommendation**

The director and some staff members present during the fiscal year were not employed or available during the audit, therefore, if bids were obtained, they were not found during the audit; the minutes did not address bid tabulations or motions to select one company over another, therefore, I believe the policy had been violated.

I recommend the Commission follow the procurement policy and obtain bids for contracts exceeding the dollar thresholds.

**Reply**

The Housing Commission is currently obtaining bids as required. We will maintain and keep files available for easy access.